

LOS RIOS COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

Chapter 961, Statutes of 1975, and
Chapter 1213, Statutes of 1991

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

December 2007



JOHN CHIANG
California State Controller

December 12, 2007

Jon Sharpe, Vice Chancellor
Finance & Administration
Los Rios Community College District
1919 Spanos Court
Sacramento, CA 95825

Dear Mr. Sharpe:

The State Controller's Office audited the costs claimed by the Los Rios Community College District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2001, through June 30, 2004.

The district claimed \$980,409 for the mandated program. Our audit disclosed that \$693,514 is allowable and \$286,895 is unallowable. The unallowable costs resulted primarily from the district claiming ineligible and unsupported costs, including overstated indirect cost rates. The State paid the district \$683,420. Allowable costs claimed exceed the amount paid by \$10,094.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Carrie Bray, Director, Accounting Services
Los Rios Community College District
Raymond Andres, Supervisor, General Accounting
Los Rios Community College District
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Los Rios Community College District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was November 16, 2007.

The district claimed \$980,409 for the mandated program. Our audit disclosed that \$693,514 is allowable and \$286,895 is unallowable. The unallowable costs resulted primarily from the district claiming ineligible and unsupported costs, including overstated indirect cost rates. The State paid the district \$683,420. Allowable costs claimed exceed the amount paid by \$10,094.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July , 1996, are allowable.

Claimants are allowed to claim increased costs. For claim components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1—Determining bargaining units and exclusive representatives
- G2—Election of unit representatives
- G3—Costs of negotiations
- G4—Impasse proceedings
- G5—Collective bargaining agreement disclosure
- G6—Contract administration
- G7—Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on October 22, 1980, and last amended them on January 27, 2000. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 2001, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Los Rios Community College District claimed \$980,409 for costs of the Collective Bargaining Program. Our audit disclosed that \$693,514 is allowable and \$286,895 is unallowable.

For the fiscal year (FY) 2001-02 claim, the State paid the district \$463,425. Our audit disclosed that \$385,806 is allowable. The State will offset \$77,619 from other mandated program payments due the district. Alternative, the district may remit this amount to the State.

For the FY 2002-03 claim, the State paid the district \$219,995. Our audit disclosed that \$188,125 is allowable. The State will offset \$31,870 from other mandated program payments due the district. Alternative, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$119,583, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on November 21, 2007. John Sharpe, Deputy Chancellor, responded by letter dated December 10, 2007 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Los Rios Community College District, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Components G1 through G3:				
Salaries and benefits	\$ 211,742	\$ 195,295	\$ (16,447)	Finding 1
Contracted services	271,924	135,962	(135,962)	Finding 2
Subtotal	483,666	331,257	(152,409)	
Less adjusted base-year direct costs	(37,018)	(37,018)	—	
Increased direct costs, Components G1 through G3	446,648	294,239	(152,409)	
Components G4 through G7:				
Salaries and benefits	35,477	28,258	(7,219)	Finding 1
Contracted services	42,610	10,238	(32,372)	Finding 2
Increased direct costs, Components G4 through G7	78,087	38,496	(39,591)	
Total increased direct costs	524,735	332,735	(192,000)	
Indirect costs	75,946	53,071	(22,875)	Findings 1, 3
Total program costs	\$ 600,681	385,806	\$ (214,875)	
Less amount paid by the State		(463,425)		
Allowable costs claimed in excess of (less than) amount paid		\$ (77,619)		
<u>July 1, 2002, through June 30, 2003</u>				
Components G1 through G3:				
Salaries and benefits	\$ 171,816	\$ 173,905	\$ 2,089	Finding 1
Contracted services	—	—	—	
Subtotal	171,816	173,905	2,089	
Less adjusted base-year direct costs	(37,847)	(37,847)	—	
Increased direct costs, Components G1 through G3	133,969	136,058	2,089	
Components G4 through G7:				
Salaries and benefits	22,947	20,152	(2,795)	Finding 1
Contracted services	5,312	5,312	—	
Increased direct costs, Components G4 through G7	28,259	25,464	(2,795)	
Total increased direct costs	162,228	161,522	(706)	
Indirect costs	57,767	26,603	(31,164)	Findings 1, 3
Total program costs	\$ 219,995	188,125	\$ (31,870)	
Less amount paid by the State		(219,995)		
Allowable costs claimed in excess of (less than) amount paid		\$ (31,870)		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>July 1, 2003, through June 30, 2004</u>				
Components G1 through G3:				
Salaries and benefits	\$ 131,764	\$ 121,441	\$ (10,323)	Finding 1
Contracted services	14	14	—	
Subtotal	131,778	121,455	(10,323)	
Less adjusted base-year direct costs	(39,227)	(39,227)	—	
Increased direct costs, Components G1 through G3	92,551	82,228	(10,323)	
Components G4 through G7:				
Salaries and benefits	18,101	17,093	(1,008)	Finding 1
Contracted services	3,537	3,537	—	
Increased direct costs, Components G4 through G7	21,638	20,630	(1,008)	
Total increased direct costs	114,189	102,858	(11,331)	
Indirect costs	45,544	16,725	(28,819)	Findings 1, 3
Total program costs	<u>\$ 159,733</u>	119,583	<u>\$ (40,150)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 119,583</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Total increased direct costs	\$ 801,152	\$ 597,115	\$ (204,037)	
Indirect costs	179,257	96,399	(82,858)	
Total program costs	<u>\$ 980,409</u>	693,514	<u>\$ (286,895)</u>	
Less amount paid by the State		(683,420)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 10,094</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits, and related indirect costs

The district claimed unallowable salaries and benefits totaling \$35,703 for the audit period; the related indirect costs total \$10,871.

Unclaimed Costs

The district did not claim \$3,573 in reimbursable costs.

Unsupported Costs

The district overstated claimed costs by \$38,256. For \$32,309, the district claimed hours that were not traceable to supporting documentation, and, in some cases, duplicated claimed hours. The remaining \$5,947 related to instances in which the district did not support any of the hours claimed.

Ineligible Costs

For the audit period, the district claimed ineligible salaries and benefits totaling \$1,020 that are not reimbursable under the mandated program as follows:

- The district claimed Title 5-compliant costs totaling \$852 for FY 2001-02 under Contract Administration.
- The district claimed more than five employees during a negotiation meeting, totaling \$168 for FY 2003-04.

The following table summarizes the unallowable salaries and benefits, and related indirect costs:

	Fiscal Year			
	2001-02	2002-03	2003-04	Total
<u>Salaries and Benefits</u>				
Component activities G1-G3:				
Unclaimed costs	\$ 31	\$ 2,482	\$ —	\$ 2,513
Unsupported costs	(16,478)	(393)	(10,155)	(27,026)
Ineligible costs	—	—	(168)	(168)
Total, component activities G1-G3	(16,447)	2,089	(10,323)	(24,681)
Component activities G4-G7:				
Unclaimed costs	903	44	113	1,060
Unsupported costs	(7,270)	(2,839)	(1,121)	(11,230)
Ineligible costs	(852)	—	—	(852)
Total, component activities G4-G7	(7,219)	(2,795)	(1,008)	(11,022)
Total direct costs	(23,666)	(706)	(11,331)	(35,703)
Indirect costs	(7,270)	(209)	(3,392)	(10,871)
Audit adjustment	\$ (30,936)	\$ (915)	\$ (14,723)	\$ (46,574)

The program's parameters and guidelines state that the district will be reimbursed for the "increased costs" incurred as a result of compliance with the mandate. Government Code section 17514 states that "costs mandated by the State" means any increased costs, that the district is required to incur.

The parameters and guidelines state that costs for maximum of five district employees per unit, per negotiation session will be reimbursed.

Recommendation

We recommend that the district develop and implement an adequate recording and reporting system to ensure that all costs claimed are allowable and properly supported.

District's Response

The draft audit report disallows \$46,574, of which \$35,703 is unallowable salaries and benefits costs and \$10,871 is related indirect costs for the audit period. The reason for these findings is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were determined to be excessive or unreasonable. Whereas employees submitted their time on a form supplied by the District Office and the employee signed confirming certification of the time spent, this was not found to be sufficient documentation. The audit report organizes the adjustments into three categories.

UNSUPPORTED HOURS CLAIMED

The draft audit report concludes the District claimed "unsupported hours" totaling \$2,374 for the audit period.

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3	\$ 31	\$ 2,482	(\$3,092)	(\$ 579)
G4-7	\$ 685	(\$2,506)	\$ 26	(\$1,795)
	\$ 716	(\$ 24)	(\$ 3,066)	(\$2,374)

The draft audit report states that the "district made typographical errors and claimed duplicate costs when preparing the mandated cost claims" and that the District "also claimed employee hours without any support." An auditor work paper (3G1) provided at the November 16, 2007-exit conference states that "the unsupported cost is due to the hours and amount claimed in the cost detail worksheet (Form CB-2) that is not traceable to any of the supporting documents provided by the district."

INSUFFICIENT SUPPORT

The draft audit report concludes the District claimed \$32,309 for the audit period for staff hours "that were not traceable to supporting documentation."

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3	(\$16,478)	(\$393)	(\$7,063)	(\$23,934)
G4-7	(7,052)	(289)	(1,034)	(8,375)
Total	(\$23,530)	(\$682)	(\$8,097)	(\$32,309)

An auditor work paper (3G1) provided at the November 16, 2007-exit conference states that insufficient support “occurs when there is a duplication in the hours on the supporting documents, the total hours claimed cannot be fully traced to the documents, or more than five district employees were claimed per negotiation meeting.”

INELIGIBLE COSTS

The draft audit report concludes the District claimed “ineligible salaries and benefits totaling \$1,020 that are not reimbursable under the mandate program” for the audit period.

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3			(\$168)	(\$168)
G4-7	(\$852)			(852)
Total	(\$852)		(\$168)	(\$1,020)

The draft audit report states that the \$852 adjustment pertains to Title 5 complaint costs and the \$168 adjustment pertains to “more than five employees during a negotiation meeting.”

DISTRICT RESPONSE

For the various adjustments, the draft audit report cites Government Code section 17514 for the proposition that “costs mandated by the State” means any increased costs that the district is required to incur.” The draft audit report also states that the parameters and guidelines provide for reimbursement of “increased costs” as a result of compliance with the mandate, and specifically, that reimbursement is limited to five district representatives at negotiations sessions. The District does not concur with the adjustments because the audit report does not provide evidence in support of the qualitative decision the auditor made to disallow specific staff time. In other words, there is no evidence of why the auditor concluded that the costs were totally unsupported, insufficiently supported, or not related to the mandate. This basis for insufficient District supporting documentation sets a standard for the District higher than the standards for the auditor, as evidence was not provided to support the factual basis for each adjustment.

The District reported its actual reimbursable costs in the manner required by the parameters and guidelines and on the forms provided for by the Controller’s claiming instructions for this program. These instructions do not require as a specific condition of reimbursement that claimants provide the individual activity log sheets or time records the Controller has established after the fact as an audit requirement. Instead, the parameters and guidelines specify a “worksheet” supporting the calculation of hourly rates and benefits.

The draft audit report recommends the District “develop and implement an adequate recording and reporting system to ensure that all costs claimed are allowable and properly supported.” If and when the Controller publishes enforceable and specific standards through the public rulemaking process, claimants will be able to comply with those standards in the usual course of business. The audit process is not the appropriate method for introducing new standards.

SCO's Comment

Based on the district's response, we combined, for clarity purposes, the unallowable costs related to unsupported costs and insufficient support. We also separately identified the reimbursable costs that the district did not claim. The fiscal impact of the finding did not change. The SCO auditor's working papers referenced by the district agree to amounts reported in the audit finding.

Government Code section 17561(d)(2) provides that the Controller may audit the records of any local agency or school district to verify the actual amount of the mandated costs and may reduce any claim that the Controller determines is excessive or unreasonable. Furthermore, Government Code section 17558.5 states that a reimbursement mandate claim for "actual costs" filed by a local agency or school district is subject to the initiation of an audit by the Controller. The SCO performs audits in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. The performance audit fieldwork standards require an auditor to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for the auditors' findings and conclusions.

The district states in its response that the SCO did not consider as sufficient documentation employees' time submitted on a form supplied by the District Office and signed by the employee confirming certification of the time spent. The district's statement is incorrect. The district provided us with meeting sign-in sheets and employee time record sheets as supporting documentation. We used the worksheets submitted with each claim, Form CB-2, and traced the claimed hours to district-provided supporting documentation. The findings resulted when the district-provided supporting documents did not match the amount the district claimed on Form CB-2.

**FINDING 2—
Unallowable
contracted services
costs**

The district claimed unallowable contracted services costs totaling \$168,334 for the audit period. The audit adjustment resulted from the following issues:

- The district claimed \$27,260 for grievance adjudication costs that were not collective-bargaining related.
- The district overstated grievance arbitration costs by \$5,112 because it claimed 100% rather than 50% of the costs.
- The district claimed \$135,962 for a reclassification study that was incurred in the prior fiscal year (FY 2000-01).

The following table summarizes the contracted services audit adjustment:

	<u>Fiscal Year 2001-02</u>
<u>Contracted Services</u>	
Component activities G1-G3:	
Costs outside audit period	<u>\$ (135,962)</u>
Total, component activities G1-G3	<u>(135,962)</u>

	Fiscal Year 2001-02
Component activities G4-G7:	
Ineligible non-collective bargaining costs	(27,260)
Overstated grievance arbitration costs	(5,112)
Total, component activities G4-G7	(32,372)
Audit adjustment	<u>\$ (168,334)</u>

The parameters and guidelines state that district will be reimbursed for the “increased costs” incurred as a result of compliance with the mandate. Government Code section 17514 states that “costs mandated by the State” means any increased costs, which a school district is required to incur.

The parameters and guidelines state that the district’s portion of arbitrators’ fees for adjudicating grievances, representing 50% of costs, will be reimbursed.

Government Code section 17560 requires districts to file an annual reimbursement claim that details the costs actually incurred for the fiscal year.

Recommendation

We recommend that the district develop and implement an effective control and reporting system to ensure that all claimed costs are eligible and adequately supported.

District’s Response

The draft audit report concludes that the District claimed unallowable contracted services costs of \$168,334 for FY 2001-02. The total includes three adjustments to the amounts claimed:

- \$27,260 of “ineligible” grievance adjudication costs claimed were disallowed “that were not collective-bargaining related.”

- \$5,112 of “overstated” grievance arbitration costs claimed were disallowed because the District “claimed 100% rather than 50% of the costs.”

- \$135,962 for a reclassification study was disallowed because the cost was “incurred in the prior fiscal year.”

DISTRICT RESPONSE

The District has no additional comments regarding Finding 2, at this time.

SCO’s Comment

Our finding and recommendation are unchanged. The district restated the finding, but did not respond to its validity.

**FINDING 3—
Unallowable indirect
costs**

The district claimed unallowable indirect costs totaling \$82,858 for the audit period. Of that amount, \$10,871 resulted from unallowable salaries and benefits identified in Finding 1. The remaining balance identified in this finding totals \$71,987.

The district developed indirect cost rate proposals (ICRPs) based on an Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for its ICRPs. Therefore, we calculated indirect cost rates using the alternative methodology (FAM-29C) allowed by the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rates claimed.

The district applied its indirect cost rates to salaries and benefits. However, the FAM-29C methodology includes contract services in the base. Therefore, we applied the FAM-29C indirect cost rates to salaries and benefits, and contract services.

The following table summarizes the audited and claimed indirect rates:

	Fiscal Year		
	2001-02	2002-03	2003-04
<u>Indirect Cost Rate</u>			
Allowable rate	15.95%	16.47%	16.26%
Less claimed rate	<u>(30.72)%</u>	<u>(29.66)%</u>	<u>(30.39)%</u>
Unsupported rate	<u>(14.77)%</u>	<u>(13.19)%</u>	<u>(14.13)%</u>

The following table summarizes the overstated indirect costs:

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Total allowable increased direct costs	\$ 332,735	\$ 161,522	\$ 102,858	
Allowable indirect cost rate	× 15.95%	× 16.47%	× 16.26%	
Allowable indirect costs	53,071	26,603	16,725	\$ 96,399
Less claimed indirect costs	<u>(75,946)</u>	<u>(57,767)</u>	<u>(45,544)</u>	<u>(179,257)</u>
Overstated indirect costs	(22,875)	(31,164)	(28,819)	(82,858)
Finding 1 adjusted indirect costs	<u>7,270</u>	<u>209</u>	<u>3,392</u>	<u>10,871</u>
Audit adjustment	<u>\$ (15,605)</u>	<u>\$ (30,955)</u>	<u>\$ (25,427)</u>	<u>\$ (71,987)</u>

Recommendation

We recommend that the district claim indirect costs based on indirect cost rates computed in accordance with the SCO's claiming instructions. The district must obtain federal approval when it prepares ICRPs in accordance with OMB Circular A-21. Alternatively, the district should prepare its ICRPs using the SCO's Form FAM-29C.

District's Response

The draft audit report concludes that the “district claimed unallowable indirect costs totaling \$82,858 for the audit period” because the indirect cost calculation method used by the District was inappropriate since it was not a cost study specifically approved by the federal government. The draft audit report states:

“The district developed indirect cost rate proposals (IRCPs) based on an Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for its IRCPs. Therefore, we calculated indirect cost rates using the alternative methodology (FAM-29C) allowed by the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rated claimed.”

DISTRICT RESPONSE

The audit report asserts that the claimants must obtain federal approval when it prepares ICRPs in accordance with OMB Circular A-21. Neither the Commission nor the Controller has ever specified the federal agencies which have the authority to “approve” indirect cost rates. The parameters and guidelines also allow for calculation of the indirect cost rate using the Controller's FAM-29C, which is the procedure utilized by the District. The correct forms were used and the claimed amounts were entered at the correct locations.

Both the District's method and the Controller's FAM-29C method utilize the same source document, the CCFS-311 annual financial and budget report required by the State. The difference in the claimed and audited methods is the determination of which of those cost elements are direct costs and which are indirect costs. Indeed, federally “approved” rates which the Controller will accept without further action, are rates calculated by the District and submitted for approval by the federal government, indicating that the process is not an exact science, but a determination of the relevance and reasonableness of the costs allocation assumptions made for the method used.

Government Code Section 17561(d)(2) requires the Controller to pay claims, provided that the Controller may audit the records of any school district to verify the actual amount of the mandated costs, and may reduce any claim that the Controller determines is excessive or unreasonable. The Controller is authorized to reduce a claim only if it determines the claim to be excessive or unreasonable. The audit did not determine that the District's rate was excessive or unreasonable, just that it wasn't federally approved. The District has computed its indirect cost rate utilizing cost accounting principles from the Office of Management and Budget Circular A-21, and the draft audit report has disallowed it without a determination of whether the product of the District's calculation would, or would not, be excessive, unreasonable, or inconsistent with cost accounting principles.

SCO's Comment

Our finding and recommendation are unchanged.

As noted in the finding, the district developed its ICRP in accordance with OMB Circular A-21 methodology. As the district did not obtain federal approval of the ICRP, the ICRP is not acceptable for claiming indirect costs.

The parameters and guidelines state that, "Community College Districts must use one of the following three alternatives: a federally approved rate based on OMB Circular A-21; the State Controller's FAM-29C which uses the CCFS-311; or seven percent (7%)." If the district does not use a federally approved rate and chooses to claim indirect costs using the SCO's FAM-29C option, then the district must comply with the SCO's claiming instructions.

The SCO's claiming instructions state:

A CCD may claim indirect costs using the Controller's methodology (FAM-29C) outlined in the following paragraphs. If specifically allowed by a mandated program's P's & G's, a district may alternately choose to claim indirect costs using either (1) a federally approved rate prepared in accordance with Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions; or (2) a flat 7% rate.

These instructions are consistent with the parameters and guidelines for other community college district mandated programs, including the following:

- Absentee Ballots
- Health Benefits for Survivors of Peace Officers and Firefighters
- Health Fee Elimination
- Law Enforcement College Jurisdiction Agreements
- Mandate Reimbursement Process
- Open Meetings Act
- Photographic Record of Evidence
- Sex Offenders Disclosure by Law Enforcement Officers
- Sexual Assault Response Procedure

The claiming instructions further state:

OMB Circular A-21, Section H, describes a simplified method for indirect cost rate calculations. However, Section H.1.b. states that the simplified method should not be used where it produces results that appear inequitable. As previously noted, FAM-29C strives to equitable allocate administrative support costs to personnel that perform mandated cost activities claimed by CCD.

Government Code section 17558.5 requires the district to file a reimbursement claim for actual mandate-related costs. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify actual mandate-related costs and reduce any claim that the SCO determines is excessive or unreasonable. In addition,

Government Code section 12410 states, “The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.” Therefore, the district’s contention that the SCO is authorized to reduce a claim only if it determines the claim to be excessive or unreasonable is without merit.

The SCO did, in fact, conclude that the district’s indirect cost rates were excessive. “Excessive” is defined as “exceeding what is usual, proper, necessary, or normal. . . . Excessive implies an amount or degree too great to be reasonable or acceptable. . . . [Emphasis added.]”¹ The district did not obtain federal approval of its ICRPs. The SCO calculated indirect cost rates using the alternate methodology identified in the its claiming instructions. The alternate methodology indirect cost rates did not support the rates that the district claimed; thus, the rates claimed were excessive.

¹ Merriam-Webster’s Collegiate Dictionary, Tenth Edition, © 2001.

OTHER ISSUE— Duration of Audit

The district’s response also addressed the following issue related to the duration of the audit. Our comment follows the district’s response.

District’s Response

The audit commenced two years ago. An exit conference was conducted on May 9, 2006. No draft audit report was issued. A second exit conference was conducted on November 16, 2007, a delay of 18 months. The result is that the documentation the Controller expects to be readily available for audit was prepared in the usual course of business as long as six years ago. After the passage of this much time, the Controller’s expectations as to the scope and immediate availability of supporting documentation are unreasonable and arbitrary.

On November 21, 2007, a transmittal letter was sent via e-mail outlining the draft findings. Subsequently, the auditor contacted the District by telephone on December 5, 2007, asking if there would be a response to the draft audit report. The fifteen days from mail delivery having not expired, my staff informed the auditor the reply would be sent in time to meet the fifteen day requirement. The auditor stated that the fifteen days was measured from the November 21, 2007 date the audit was e-mailed to the District. The District does not consider e-mail an effective delivery of audit reports. The auditor stated that Mr. Spano was in a hurry to issue the report. After an eighteen month delay between exit conferences, it seems inappropriate for your office to be urging the District to submit our response without benefit of the full 15 days to which we are entitled; however, we have complied with the December 11, 2007 deadline (15-days from November 26, 2007, the date the audit report was received).

SCO’s Comment

The SCO auditors conducted a status meeting with the district on May 9, 2006, rather than an exit conference. The purpose of the status meeting was to provide the district with all findings and issues noted by the SCO. Near the beginning of the meeting, the district’s Deputy Chancellor

stated that he thought the meeting was an exit conference. At that time, the audit manager clarified that it was a status meeting. The audit manager further explained that the purpose of the status meeting was to discuss all potential findings and allow the district sufficient time to provide any supporting documentation to reduce or eliminate the findings.

The district provided our office additional information during and subsequent to the May 9, 2006, status meeting. The auditors reviewed the additional documentation and revised some of the findings. The findings presented at the November 16, 2007, exit conference were the same issues presented in the May 9, 2006, status meeting.

The auditor contacted the district to schedule an exit conference for November 9, 2007. The district later requested that the SCO reschedule the exit conference to November 16, 2007. The auditor explained to the district that if the exit conference was rescheduled to November 16, 2007, the district would only have 15 days to respond. The district agreed to this schedule.

**Attachment—
District's Response to
Draft Audit Report**

LOS RIOS

COMMUNITY
COLLEGE
DISTRICT



American River College
Cosumnes River College
Folsom Lake College
Sacramento City College

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Phone: 916 568-3112
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www.lostrios.edu

HAND DELIVERED on December 10, 2007
300 Capitol Mall, Suite 418

December 10, 2007

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: **Los Rios Community College District**
Chapter 961, Statutes of 1975
Collective Bargaining
Fiscal Years 2001-2002, 2002-03, and 2003-04

Dear Mr. Spano:

This letter is the response of Los Rios Community College District to the letter dated November 21, 2007, from Jeffrey V. Brownfield and received by the District on November 26, 2007, which transmits a draft copy of the audit report of the District's Collective Bargaining annual reimbursement claims for the period of July 1, 2001 through June 30, 2004.

Finding 1 - Unallowable salaries and benefits, and related indirect costs

The draft audit report disallows \$46,574, of which \$35,703 is unallowable salaries and benefits costs and \$10,871 is related indirect costs for the audit period. The reason for these findings is the quantity and quality of District documentation. None of the adjustments were made because the costs claimed were determined to be excessive or unreasonable. Whereas employees submitted their time on a form supplied by the District Office and the employee signed confirming certification of the time spent, this was not found to be sufficient documentation. The audit report organizes the adjustments into three categories.

UNSUPPORTED HOURS CLAIMED

The draft audit report concludes the District claimed "unsupported hours" totaling \$2,374 for the audit period.

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3	\$ 31	\$ 2,482	(\$3,092)	(\$ 579)
G4-7	\$ 685	(\$2,506)	\$ 26	(\$1,795)
	\$ 716	(\$ 24)	(\$ 3,066)	(\$2,374)

The draft audit report states that the "district made typographical errors and claimed duplicate costs when preparing the mandated cost claims" and that the District "also claimed employee hours without any support." An auditor work paper (3G1) provided at the November 16, 2007-exit conference states that "the unsupported cost is due to the hours and amount claimed in the cost detail worksheet (Form CB-2) that is not traceable to any of the supporting documents provided by the district."

INSUFFICIENT SUPPORT

The draft audit report concludes the District claimed \$32,309 for the audit period for staff hours "that were not traceable to supporting documentation."

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3	(\$16,478)	(\$393)	(\$7,063)	(\$23,934)
G4-7	(7,052)	(289)	(1,034)	(8,375)
Total	(\$23,530)	(\$682)	(\$8,097)	(\$32,309)

An auditor work paper (3G1) provided at the November 16, 2007-exit conference states that insufficient support "occurs when there is a duplication in the hours on the supporting documents, the total hours claimed cannot be fully traced to the documents, or more than five district employees were claimed per negotiation meeting."

INELIGIBLE COSTS

The draft audit report concludes the District claimed "ineligible salaries and benefits totaling \$1,020 that are not reimbursable under the mandate program" for the audit period.

Amount Adjusted Each Fiscal Year by Component Group				
Components	2001-02	2002-03	2003-04	Totals
G1-3			(\$168)	(\$168)
G4-7	(\$852)			(852)
Total	(\$852)		(\$168)	(\$1,020)

The draft audit report states that the \$852 adjustment pertains to Title 5 complaint costs and the \$168 adjustment pertains to "more than five employees during a negotiation meeting."

DISTRICT RESPONSE

For the various adjustments, the draft audit report cites Government Code section 17514 for the proposition that "costs mandated by the State" means any increased costs that the district is required to incur." The draft audit report also states that the parameters and guidelines provide for reimbursement of "increased costs" as a result of compliance with the mandate, and specifically, that reimbursement is limited to five district representatives at negotiations sessions. The District does not concur with the adjustments because the audit report does not provide evidence in support of the qualitative decision the auditor made to disallow specific staff time. In other words, there is no evidence of why the auditor concluded that the costs were totally unsupported, insufficiently supported, or not related to the mandate. This basis for insufficient District supporting documentation sets a standard for the District higher than the standards for the auditor, as evidence was not provided to support the factual basis for each adjustment.

The District reported its actual reimbursable costs in the manner required by the parameters and guidelines and on the forms provided for by the Controller's claiming instructions for this program. These instructions do not require as a specific condition of reimbursement that claimants provide the individual activity log sheets or time records the Controller has established after the fact as an

audit requirement. Instead, the parameters and guidelines specify a "worksheet" supporting the calculation of hourly rates and benefits.

The draft audit report recommends the District "develop and implement an adequate recording and reporting system to ensure that all costs claimed are allowable and properly supported." If and when the Controller publishes enforceable and specific standards through the public rulemaking process, claimants will be able to comply with those standards in the usual course of business. The audit process is not the appropriate method for introducing new standards.

Finding 2 - Unallowable contracted services costs

The draft audit report concludes that the District claimed unallowable contracted services costs of \$168,334 for FY 2001-02. The total includes three adjustments to the amounts claimed:

- \$27,260 of "ineligible" grievance adjudication costs claimed were disallowed "that were not collective-bargaining related."

- \$5,112 of "overstated" grievance arbitration costs claimed were disallowed because the District "claimed 100% rather than 50% of the costs."

- \$135,962 for a reclassification study was disallowed because the cost was "incurred in the prior fiscal year."

DISTRICT RESPONSE

The District has no additional comments regarding Finding 2, at this time.

Finding 3- Unallowable indirect costs

The draft audit report concludes that the "district claimed unallowable indirect costs totaling \$82,858 for the audit period" because the indirect cost calculation method used by the District was inappropriate since it was not a cost study specifically approved by the federal government. The draft audit report states:

"The district developed indirect cost rate proposals (IRCPs) based on an Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for its IRCPs. Therefore, we calculated indirect cost rates using the alternative methodology (FAM-29C) allowed by the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rates claimed."

DISTRICT RESPONSE

The audit report asserts that the claimants must obtain federal approval when it prepares IRCPs in accordance with OMB Circular A-21. Neither the Commission nor the Controller has ever specified the federal agencies which have the authority to "approve" indirect cost rates. The parameters and guidelines also allow for calculation of the indirect cost rate using the Controller's FAM -29C, which is the procedure utilized by the District. The correct forms were used and the claimed amounts were entered at the correct locations.

Both the District's method and the Controller's FAM-29C method utilize the same source document, the CCFS-311 annual financial and budget report required by the State. The difference in the claimed and audited methods is the determination of which of those cost elements are direct costs and which are indirect costs. Indeed, federally "approved" rates which the Controller will accept without further action, are rates calculated by the District and submitted for approval by the federal government, indicating that the process is not an exact science, but a

determination of the relevance and reasonableness of the costs allocation assumptions made for the method used.

Government Code Section 17561(d)(2) requires the Controller to pay claims, provided that the Controller may audit the records of any school district to verify the actual amount of the mandated costs, and may reduce any claim that the Controller determines is excessive or unreasonable. The Controller is authorized to reduce a claim only if it determines the claim to be excessive or unreasonable. The audit did not determine that the District's rate was excessive or unreasonable, just that it wasn't federally approved. The District has computed its indirect cost rate utilizing cost accounting principles from the Office of Management and Budget Circular A-21, and the draft audit report has disallowed it without a determination of whether the product of the District's calculation would, or would not, be excessive, unreasonable, or inconsistent with cost accounting principles.

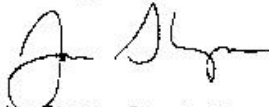
Duration of the Audit

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Sincerely,



J. Sharpe, Deputy Chancellor
Los Rios Community College District

Cc: Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office
Theresa Matista, Associate Vice Chancellor, Finance
Carrie Bray, Director, Accounting Services
Raymond Andres, General Accounting Supervisor
Keith B. Petersen, Consultant

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